

**MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)**

**INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2013 AND 2012

MAHASKA HEALTH PARTNERSHIP

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MAHASKA HEALTH PARTNERSHIP
Officials
June 30, 2013

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Paul Swenson, Chairman	Oskaloosa, Iowa	2014
Becky Siefering, Vice-Chairman	Oskaloosa, Iowa	2018
Mary Sexton, Secretary	Rose Hill, Iowa	2014
David Langkamp, Treasurer	Oskaloosa, Iowa	2016
Jim Hansen	Oskaloosa, Iowa	2018
Mike Grim	Oskaloosa, Iowa	2014
Amy McGriff	New Sharon, Iowa	2016

Chief Executive Officer:

Jay Christensen	Oskaloosa, Iowa
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Chief Financial Officer:

Jon Davis	Oskaloosa, Iowa
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Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Mahaska Health Partnership
Oskaloosa, Iowa

Report on the Financial Statements

We have audited the accompanying consolidated statements of net position of Mahaska Health Partnership as of June 30, 2013 and 2012 and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees
Mahaska Health Partnership

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements referred to above present fairly in all material respects, the financial position of Mahaska Health Partnership as of June 30, 2013 and 2012 and the results of its operations, changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 3 through 3d and on page 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Mahaska Health Partnership's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the consolidated financial statements for the three years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information on pages 1 and 25 through 42 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Trustees
Mahaska Health Partnership

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2013 on our consideration of Mahaska Health Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

GmeWahl, Ben, Kyhn & Co. P.C.

Atlantic, Iowa
October 21, 2013



1229 C Avenue East ■ Oskaloosa, Iowa 52577 ■ 641-672-3132 ■ Fax 641-672-3336

Mahaska Health Partnership Management's Discussion and Analysis

Our discussion and analysis of Mahaska Health Partnership (Hospital's) financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2013, 2012, and 2011. Please read it in conjunction with the Hospital's financial statements, which begin on page 4.

Please note that the Foundation's activities have been consolidated with the Hospital.

FINANCIAL HIGHLIGHTS

The Hospital's net position increased in each of the past two years with a \$1,384,211 or 4.1% increase in 2013 and a \$1,051,359 or 3.2% increase in 2012.

The Hospital reported operating losses in 2013 (\$1,003,198) and 2012 (\$1,086,026). Losses in 2013 decreased by \$82,828 from the loss reported in 2012. Operating losses in 2012 increased by \$275,837 from the loss reported in 2011.

Nonoperating revenues increased by \$397,865 in 2013 compared to 2012.
Nonoperating revenues decreased by \$541,064 in 2012 compared to 2011.

Excess revenues over expenses before capital grants and contributions increased by \$480,693 or 56.7% in 2013 compared to 2012 and decreased by \$816,901 or 49.1% in 2012 compared to 2011.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Our analysis of the Hospital finances begins on page 3a. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Mahaska Health Partnership
Management's Discussion and Analysis - Continued

These two statements report the Hospital's net position and changes in them. You can think of the Hospital's net position - the difference between assets, liabilities, and deferred revenues - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets, liabilities, and deferred revenues reported in the Statement of Net Position on page 4. The Hospital's net position increased in each of the past two years by \$1,384,211 in 2013 and \$1,051,359 in 2012, as you can see from Table 1.

Table 1: Assets, Liabilities, Deferred Revenue, and Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Current assets	\$ 14,833,773	\$ 13,054,864	\$ 14,040,540
Capital assets, net	40,526,354	29,599,675	24,049,490
Other noncurrent assets	<u>6,022,262</u>	<u>5,778,694</u>	<u>6,120,245</u>
Total assets	<u>\$ 61,382,389</u>	<u>\$ 48,433,233</u>	<u>\$ 44,210,275</u>
Liabilities:			
Long-term debt outstanding	\$ 16,374,894	\$ 5,550,607	\$ 4,592,193
Other current and noncurrent liabilities	<u>8,970,725</u>	<u>8,628,139</u>	<u>6,414,954</u>
Total liabilities	<u>\$ 25,345,619</u>	<u>\$ 14,178,746</u>	<u>\$ 11,007,147</u>
Deferred Revenue	<u>\$ 398,072</u>	<u>\$ --</u>	<u>\$ --</u>
Net Position:			
Invested in capital assets, net of related debt	\$ 20,529,000	\$ 20,676,357	\$ 18,509,246
Restricted expendable assets	1,917,013	1,851,946	1,644,734
Restricted nonexpendable permanent endowments	6,000	6,000	6,000
Unrestricted	<u>13,186,685</u>	<u>11,720,184</u>	<u>13,043,148</u>
Total net position	<u>\$ 35,638,698</u>	<u>\$ 34,254,487</u>	<u>\$ 33,203,128</u>

Mahaska Health Partnership
Management's Discussion and Analysis - Continued

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

In 2013, the Hospital's net position increased by \$1,384,211 or 4.1%, as shown in Table 2. This increase is made up of various different components.

Table 2: Operating Results and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues:			
Net patient service revenues	\$ 39,414,278	\$ 36,150,097	\$ 33,762,202
Other operating revenues	<u>598,992</u>	<u>373,521</u>	<u>390,732</u>
Total operating revenues	40,013,270	36,523,618	34,152,934
Operating Expenses:			
Salaries and benefits	26,704,290	24,708,779	22,450,436
Professional fees	1,101,375	934,750	865,004
Other operating expenses	11,236,696	10,093,464	9,795,987
Depreciation	<u>1,974,107</u>	<u>1,872,651</u>	<u>1,851,696</u>
Total operating expenses	41,016,468	37,609,644	34,963,123
Operating loss	(1,003,198)	(1,086,026)	(810,189)
Nonoperating Revenues and Expenses:			
Property taxes	1,913,972	1,914,443	1,915,433
Investment income	29,210	31,109	89,788
Noncapital grants and contributions	305,203	255,086	272,626
Other nonoperating revenues and expenses, net	<u>82,943</u>	<u>(267,175)</u>	<u>196,680</u>
Nonoperating revenues, net	2,331,328	1,933,463	2,474,527
Excess of Revenues over Expenses			
Before Capital Grants and Contributions	1,328,130	847,437	1,664,338
Capital Grants and Contributions	<u>56,081</u>	<u>203,922</u>	<u>502,161</u>
Excess of Revenues Over Expenses and Increase in Net Position	1,384,211	1,051,359	2,166,499
Net Position Beginning of Year	<u>34,254,487</u>	<u>33,203,128</u>	<u>31,036,629</u>
Net Position End of Year	<u>\$ 35,638,698</u>	<u>\$ 34,254,487</u>	<u>\$ 33,203,128</u>

Mahaska Health Partnership
Management's Discussion and Analysis - Continued

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2013 was prepared on a modified accrual basis. The original budget of expenditures was approved at the meeting on February 27, 2012. Actual expenditures were lower than budget.

OPERATING LOSSES

The first component of the overall change in the Hospital's net position is its operating income (loss) - generally, the difference between net patient service revenue and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating loss. Losses in 2013 decreased by \$82,828 compared to the loss reported in 2012.

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of property taxes levied by the Hospital, investment earnings and noncapital contributions. Total nonoperating revenues increased by \$397,865 compared to 2012.

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives both capital and operating grants from various state and federal agencies for specific programs. These are discussed in Note A of the financial statements. The foundation received \$56,081 in contributions to be used for the Hospital's construction project and hospice house funding.

THE HOSPITAL'S CASH FLOWS

The Hospital's Statement of Cash Flows is an analytical tool useful in determining the short-term viability of the organization. The statement includes only cash inflows and outflows of cash and cash equivalents; it excludes transactions that do not directly affect cash receipts and payments (i.e., depreciation, bad debt write-offs). Total cash and cash equivalents at June 30, 2013 was \$7,911,681 compared to \$7,004,125 at June 30, 2012.

Mahaska Health Partnership
Management's Discussion and Analysis - Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2013, the Hospital had approximately \$40.5 million invested in capital assets, net of accumulated depreciation, as detailed in Note H to the financial statements. The Hospital is in the second year of a two year construction phase of a major construction and renovation project of its existing facility. The total estimated cost of the project is \$26 million. The project is being financed with internally generated funds and \$23 million of additional debt.

Debt:

At year-end, the Hospital had approximately \$18.6 million in notes payable outstanding. A detail of long term debt is provided in Note I to the financial statements. The Hospital has borrowed additional debt to finance its building and renovation project. The total additional debt is \$23 million, of which \$16.6 million has been drawn as of June 30, 2013. The remaining debt available is anticipated to be drawn during FY 2014.

OTHER ECONOMIC FACTORS

The Hospital is dependent upon payments from Medicare, Medicaid and other third-party payers. Each of these payers has continued to put pressure on reimbursement levels paid to the hospital. Medicare represents nearly 41% of hospital revenues and presently reimburses the hospital approximately 54% of billed charges.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Chief Executive Officer, at Mahaska Health Partnership, Oskaloosa, Iowa 52577.

MAHASKA HEALTH PARTNERSHIP
Consolidated Statements of Net Position
June 30,

ASSETS

	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash	\$ 2,303,763	\$ 1,483,346
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$3,876,000 in 2013, \$3,727,000 in 2012)	8,129,982	7,274,478
Other receivables	19,070	15,201
Inventory	1,122,398	1,145,220
Prepaid expense	164,560	136,619
Estimated third-party payor settlements	94,000	--
Succeeding year property tax receivable	1,800,000	1,800,000
Internally designated assets	<u>1,200,000</u>	<u>1,200,000</u>
Total current assets	14,833,773	13,054,864
Designated and Restricted Assets:		
Internally designated assets	5,029,025	4,991,187
Restricted assets	<u>1,923,013</u>	<u>1,857,946</u>
	6,952,038	6,849,133
Less amounts required to meet current liabilities	<u>1,200,000</u>	<u>1,200,000</u>
	5,752,038	5,649,133
Capital Assets:		
Depreciable capital assets	20,115,235	20,960,865
Non-depreciable capital assets	<u>20,411,119</u>	<u>8,638,810</u>
	40,526,354	29,599,675
Other Assets:		
Notes receivable	243,380	103,280
Other	<u>26,844</u>	<u>26,281</u>
	270,224	129,561
Total assets	<u>\$ 61,382,389</u>	<u>\$ 48,433,233</u>

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2013</u>	<u>2012</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 2,223,892	\$ 1,194,508
Accounts payable	1,968,355	2,995,677
Accrued employee compensation	2,218,388	1,866,444
Accrued payroll taxes and withholding	560,090	301,510
Accrued health insurance claims	200,000	200,000
Estimated third-party payor settlements	--	270,000
Deferred revenue for succeeding year property tax receivable	<u>1,800,000</u>	<u>1,800,000</u>
Total current liabilities	<u>8,970,725</u>	<u>8,628,139</u>
Long-Term Debt:		
Revenue bonds and notes payable, less unamortized refunding costs, and current maturities	<u>16,374,894</u>	<u>5,550,607</u>
Total liabilities	<u>25,345,619</u>	<u>14,178,746</u>
Deferred Inflows of Resources:		
Deferred revenue	398,072	--
Net Position:		
Invested in capital assets, net of related debt	20,529,000	20,676,357
Restricted	1,923,013	1,857,946
Unrestricted	<u>13,186,685</u>	<u>11,720,184</u>
Total net position	<u>35,638,698</u>	<u>34,254,487</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 61,382,389</u>	 <u>\$ 48,433,233</u>

MAHASKA HEALTH PARTNERSHIP
Consolidated Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Revenue:		
Net patient service revenue	\$ 39,414,278	\$ 36,150,097
Other revenue	<u>598,992</u>	<u>373,521</u>
Total revenue	40,013,270	36,523,618
Expenses:		
Nursing service	9,558,134	9,396,207
Other professional service	18,899,931	16,727,157
General service	3,039,120	2,965,791
Fiscal and administrative service	7,545,176	6,647,838
Provision for depreciation	<u>1,974,107</u>	<u>1,872,651</u>
Total expenses	<u>41,016,468</u>	<u>37,609,644</u>
Operating Loss	(1,003,198)	(1,086,026)
Non-Operating Revenue (Expenses):		
County taxes	1,913,972	1,914,443
County subsidy - New Directions	13,187	130,402
Investment income	29,210	31,109
Noncapital grants and contributions	305,203	255,086
Rental income	128,146	247,920
Interest expense	(2,807)	(67,102)
Debt issue cost	--	(591,395)
Gain (loss) on disposal of assets	<u>(55,583)</u>	<u>13,000</u>
Non-operating revenue, net	<u>2,331,328</u>	<u>1,933,463</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,328,130	847,437
Capital Grants and Contributions	<u>56,081</u>	<u>203,922</u>
Excess of Revenues Over Expenses and Increase in Net Position	1,384,211	1,051,359
Net Position Beginning of Year, as restated (Note P)	<u>34,254,487</u>	<u>33,203,128</u>
Net Position End of Year, as restated	<u>\$ 35,638,698</u>	<u>\$ 34,254,487</u>

The accompanying notes are an integral part of these statements.

MAHASKA HEALTH PARTNERSHIP
Consolidated Statements of Cash Flows
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 38,588,977	\$ 34,969,006
Cash paid to suppliers	(17,514,589)	(15,685,716)
Cash paid to employees	(21,126,861)	(19,659,970)
Other revenue	<u>598,992</u>	<u>373,521</u>
Net cash provided by (used in) operating activities	546,519	(3,159)
Cash flows from non-capital financing activities:		
County tax revenue and subsidy	1,927,159	2,044,845
Noncapital grants and contributions	<u>305,203</u>	<u>255,086</u>
Net cash provided by non-capital financing activities	2,232,362	2,299,931
Cash flows from capital and related financing activities:		
Capital expenditures	(13,519,686)	(5,135,150)
Change in other assets	(563)	563
Capital grants and contributions	56,081	203,922
Interest paid	(225,011)	(301,630)
Principal paid on long-term debt	(1,196,871)	(6,090,145)
Proceeds on notes payable	13,047,735	7,333,067
Debt issue costs	--	(591,395)
Proceeds on sale of assets	<u>11,500</u>	<u>13,000</u>
Net cash used in capital and related financing activities	(1,826,815)	(4,567,768)
Cash flows from investing activities:		
Investment income	21,367	29,889
Change in designated and restricted assets	(7,923)	(7,371)
Loans granted for physician recruitment	(186,100)	(63,937)
Rental income	<u>128,146</u>	<u>247,920</u>
Net cash provided by (used in) investing activities	(44,510)	206,501
Net increase (decrease) in cash and cash equivalents	907,556	(2,064,495)
Cash and cash equivalents at beginning of year	<u>7,004,125</u>	<u>9,068,620</u>
Cash and cash equivalents at end of year	<u>\$ 7,911,681</u>	<u>\$ 7,004,125</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 2,303,763	\$ 1,483,346
Cash and cash equivalents in designated and restricted assets	<u>5,607,918</u>	<u>5,520,779</u>
Total cash and cash equivalents	<u>\$ 7,911,681</u>	<u>\$ 7,004,125</u>

(continued next page)

MAHASKA HEALTH PARTNERSHIP
Consolidated Statements of Cash Flows - Continued
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$(1,003,198)	\$(1,086,026)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Provision for depreciation	1,974,107	1,872,651
Amortization	46,000	27,000
Changes in assets and liabilities		
Accounts receivable	(859,373)	(733,091)
Inventory	22,822	28,826
Prepaid expense	(27,941)	21,962
Accounts payable, trade	(250,494)	166,024
Accrued employee compensation	351,944	239,486
Accrued payroll taxes and withholding	258,580	(121,991)
Accrued health insurance claims	--	30,000
Estimated third-party payor settlements	(364,000)	(448,000)
Deferred revenue	398,072	--
Total adjustments	<u>1,549,717</u>	<u>1,082,867</u>
Net cash provided by (used in) operating activities	<u>\$ 546,519</u>	<u>\$(3,159)</u>

The accompanying notes are an integral part of these statements.

MAHASKA HEALTH PARTNERSHIP
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

The organization is a critical access county hospital with related healthcare ancillary, outpatient, physicians clinics and psychiatric services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital. The Hospital has identified one component unit for 2013 and 2012: Mahaska Health Partnership Foundation (the Foundation). Substantially all of the economic resources of the Foundation are designated for the direct benefit of the Hospital. Accordingly, the assets, liabilities, and activities of the Foundation have been consolidated with those of the Hospital in these financial statements. The Foundation is a not-for-profit corporation exempt from income tax under Section 501 of the Internal Revenue Code.

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, including designated and restricted assets.

MAHASKA HEALTH PARTNERSHIP
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of three years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital capitalized interest cost of \$225,011 in 2013 (\$147,534 in 2012).

9. Compensated Absences

Hospital employees earn paid time off hours at varying rates depending on years of service. Paid time off consists of holiday, vacation and sick time and accumulates to a maximum of 420 hours. Any excess over 420 hours accumulated by the employee's anniversary date is lost. The computed amount of paid time off benefits earned by year end is recorded as part of accrued employee compensation.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

MAHASKA HEALTH PARTNERSHIP
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

14. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds, as discussed in Note C.

15. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

MAHASKA HEALTH PARTNERSHIP
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

16. Net Position

Net position of the Hospital is classified in three components. *Invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* are noncapital assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net position* consists of the remaining net position that does not meet the definition of *invested in capital assets net of related debt or restricted*.

17. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

18. Accounting Changes

In June, 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*." This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. This statement is effective for the Hospital for 2012-2013.

The GASB has issued GASB Statement No. 65 "*Items Previously Reported as Assets and Liabilities*" and GASB Statement No. 66 "*Technical Corrections - 2012*." No. 65 specifies proper accounting treatment for certain items and helps clarify the items that should be included under the categories established under Statement No. 63. No. 66 resolves conflicting guidance that resulted from previously issued Statements No. 54 and No. 62. The Hospital has elected to early implement these Statements, which are required to be implemented in the 2013-2014 year. See Note P for effects of accounting change.

MAHASKA HEALTH PARTNERSHIP
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2011. The Hospital's Medicaid cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2009. However, finalized cost reports are subject to re-opening by the intermediaries within three years of the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NOTE C - ENDOWMENTS AND RESTRICTED NET POSITION

Restricted expendable assets are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Long-term debt	\$ 1,000,000	\$ 1,000,000
Capital acquisitions	<u>917,013</u>	<u>851,946</u>
	<u>\$ 1,917,013</u>	<u>\$ 1,851,946</u>

Following is a summary of the use of temporarily restricted assets during the year ended June 30:

	<u>2013</u>	<u>2012</u>
Purchase of capital assets	<u>\$ 56,081</u>	<u>\$ 203,922</u>

Unless the contributor provides specific instructions, law permits the Hospital Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the investments in its endowments. When administering its power to spend net appreciation, the Board of Trustees is required to consider the Hospital's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

The Board of Trustees has chosen to spend the investment income and appreciation on the endowment fund while maintaining adequate amounts of earnings to maintain the principal original value. Any decreases in principal value will be replaced by retaining income in future years to return the principal to its original value.

MAHASKA HEALTH PARTNERSHIP
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE C - ENDOWMENTS AND RESTRICTED NET POSITION - Continued

Restricted nonexpendable assets as of June 30, 2013 and 2012 represent the principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the Hospital's permanent endowments are expendable to support these programs as established by the contributor:

	<u>2013</u>	<u>2012</u>
Purchase of capital assets	\$ <u>6,000</u>	\$ <u>6,000</u>

NOTE D - DESIGNATED ASSETS

Of the \$13,186,685 (\$11,720,184 as of June 30, 2012) of unrestricted net position as of June 30, 2013, \$5,029,025 (\$4,991,187 for 2012) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

	<u>2013</u>	<u>2012</u>
Operations	\$ 4,314,785	\$ 4,276,947
Employee health insurance	<u>714,240</u>	<u>714,240</u>
	<u>\$ 5,029,025</u>	<u>\$ 4,991,187</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2013 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

MAHASKA HEALTH PARTNERSHIP
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The composition of designated and restricted assets is as follows:

	<u>2013</u>	<u>2012</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 3,765,460	\$ 3,733,284
Certificates of deposit	1,261,215	1,254,912
Interest receivable	<u>2,350</u>	<u>2,991</u>
	<u>\$ 5,029,025</u>	<u>\$ 4,991,187</u>
Restricted Assets:		
Cash and cash equivalents	\$ 1,842,458	\$ 1,787,495
U.S. treasury obligations	6,000	6,000
Equity securities	<u>74,555</u>	<u>64,451</u>
	<u>\$ 1,923,013</u>	<u>\$ 1,857,946</u>

Interest rate risk. The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

NOTE F - FAIR VALUE MEASUREMENTS

The Hospital's investments are reported at fair value in the accompanying balance sheets. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Hospital uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Hospital measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 inputs were available to the Hospital, and Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

MAHASKA HEALTH PARTNERSHIP
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Level 1 Fair Value Measurements

The fair value of equity securities is based on quoted net asset values of the shares held by the Hospital at year-end.

Level 3 Fair Value Measurements

The notes receivable are not actively traded and significant other observable inputs are not available. The fair value of the notes receivable is based on contract value. Management believes these values approximate current fair value.

The following tables set forth, by level within the fair value hierarchy, the Hospital's investments at fair value as of June 30, 2013 and 2012:

		Fair Value Measurements at Reporting Date Using:	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2013</u>	<u>Fair Value</u>		
U.S. treasury obligations	\$ 6,000	\$ 6,000	\$ --
Equity securities	74,555	74,555	--
Notes receivable	243,380	--	243,380
	<u>\$ 323,935</u>	<u>\$ 80,555</u>	<u>\$ 243,380</u>

		Fair Value Measurements at Reporting Date Using:	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2012</u>	<u>Fair Value</u>		
U.S. treasury obligations	\$ 6,000	\$ 6,000	\$ --
Equity securities	64,451	64,451	--
Notes receivable	103,280	--	103,280
	<u>\$ 173,731</u>	<u>\$ 70,451</u>	<u>\$ 103,280</u>

MAHASKA HEALTH PARTNERSHIP
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE F - FAIR VALUE MEASUREMENTS - Continued

The following tables reconcile the beginning and ending balances of fair value measurements for the Hospital's level 3 assets using unobservable inputs for the years ended June 30, 2013 and 2012:

June 30, 2013

Beginning balance	\$ 103,280
Notes receivable advanced	186,100
Amortization of notes receivable	<u>(46,000)</u>
Ending balance	<u>\$ 243,380</u>

June 30, 2012

Beginning balance	\$ 66,343
Notes receivable advanced	63,937
Amortization of notes receivable	<u>(27,000)</u>
Ending balance	<u>\$ 103,280</u>

NOTE G - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2013 and 2012, was as follows:

	<u>2013</u>	<u>2012</u>
Receivable from:		
Patients	\$ 2,181,535	\$ 1,962,147
Medicare	4,949,519	3,790,914
Medicaid	1,556,678	1,080,100
Blue Cross	1,758,630	2,776,440
Other commercial insurance carriers	1,322,005	1,171,515
Others	<u>237,615</u>	<u>220,362</u>
	12,005,982	11,001,478
Less allowances for doubtful accounts and contractual adjustments	<u>3,876,000</u>	<u>3,727,000</u>
	<u>\$ 8,129,982</u>	<u>\$ 7,274,478</u>

MAHASKA HEALTH PARTNERSHIP
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE H - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2013 and 2012 were as follows:

<u>Cost</u>	<u>Balance 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2013</u>
Land Improvements	\$ 2,251,020	\$ 47,378	\$ --	\$ 2,298,398
Buildings	30,929,666	98,668	--	31,028,334
Major Movable Equipment	<u>12,414,243</u>	<u>1,049,514</u>	<u>271,700</u>	<u>13,192,057</u>
	45,594,929	1,195,560	271,700	46,518,789
<u>Depreciation</u>				
Land Improvements	757,990	114,342	--	872,332
Buildings	14,011,862	1,065,782	--	15,077,644
Major Movable Equipment	<u>9,864,212</u>	<u>793,983</u>	<u>204,617</u>	<u>10,453,578</u>
Total Depreciation	<u>24,634,064</u>	<u>1,974,107</u>	<u>204,617</u>	<u>26,403,554</u>
Depreciable Capital Assets, Net	<u>\$ 20,960,865</u>	<u>\$ (778,547)</u>	<u>\$ 67,083</u>	<u>\$ 20,115,235</u>
Construction in Progress	\$ 8,080,074	\$ 12,614,724	\$ 842,415	\$ 19,852,383
Land	<u>558,736</u>	<u>--</u>	<u>--</u>	<u>558,736</u>
Total Non-depreciable Capital Assets	<u>\$ 8,638,810</u>	<u>\$ 12,614,724</u>	<u>\$ 842,415</u>	<u>\$ 20,411,119</u>

MAHASKA HEALTH PARTNERSHIP
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE H - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2012</u>
Land Improvements	\$ 1,140,604	\$ 1,133,543	\$ 23,127	\$ 2,251,020
Buildings	31,607,203	--	677,537	30,929,666
Major Movable Equipment	16,225,232	900,502	4,711,491	12,414,243
Clinic Equipment	21,895	--	21,895	--
	<u>48,994,934</u>	<u>2,034,045</u>	<u>5,434,050</u>	<u>45,594,929</u>
<u>Depreciation</u>				
Land Improvements	685,100	96,017	23,127	757,990
Buildings	13,626,122	1,063,277	677,537	14,011,862
Major Movable Equipment	13,862,346	713,357	4,711,491	9,864,212
Clinic Equipment	21,895	--	21,895	--
	<u>28,195,463</u>	<u>1,872,651</u>	<u>5,434,050</u>	<u>24,634,064</u>
Total Depreciation				
Depreciable Capital Assets, Net	<u>\$ 20,799,471</u>	<u>\$ 161,394</u>	<u>\$ --</u>	<u>\$ 20,960,865</u>
Construction in Progress	\$ 2,691,283	\$ 6,662,191	\$ 1,273,400	\$ 8,080,074
Land	<u>558,736</u>	<u>--</u>	<u>--</u>	<u>558,736</u>
Total Non-depreciable Capital Assets	<u>\$ 3,250,019</u>	<u>\$ 6,662,191</u>	<u>\$ 1,273,400</u>	<u>\$ 8,638,810</u>

NOTE I - LONG-TERM DEBT

A schedule of changes in the Hospital's long-term debt for the years ended June 30, 2013 and 2012 follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2013</u>	<u>Current Portion</u>
Long-Term Debt:					
Note payable, Midwest One Bank	\$ 3,164,855	\$ --	\$ 1,196,871	\$ 1,967,984	\$ 1,967,984
Note payable, US Bank	3,583,067	13,047,735	--	16,630,802	255,908
Refunding costs	<u>(2,807)</u>	<u>--</u>	<u>(2,807)</u>	<u>--</u>	<u>--</u>
Total Long-Term Debt	<u>\$ 6,745,115</u>	<u>\$ 13,047,735</u>	<u>\$ 1,194,064</u>	<u>\$ 18,598,786</u>	<u>\$ 2,223,892</u>

MAHASKA HEALTH PARTNERSHIP
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE I - LONG-TERM DEBT - Continued

	Balance 2011	Additions	Reductions	Balance 2012	Current Portion
Long-Term Debt:					
Series 2001 bonds	\$ 5,505,000	\$ --	\$5,505,000	\$ --	\$ --
Note payable, Midwest One Bank	--	3,750,000	585,145	3,164,855	1,197,315
Note payable, US Bank	--	3,583,067	--	3,583,067	--
Refunding costs	(36,490)	--	(33,683)	(2,807)	(2,807)
Total Long-Term Debt	<u>\$ 5,468,510</u>	<u>\$7,333,067</u>	<u>\$6,056,462</u>	<u>\$ 6,745,115</u>	<u>\$1,194,508</u>

Total interest cost for the year ended June 30, 2013 was \$227,818 (\$214,636 in 2012). Interest of \$225,011 (\$147,534 in 2012) was capitalized as part of the cost of construction in progress.

Note Payable, Midwest One Bank

The note is in the name of the Mahaska Health Partnership through Midwest One Bank, Oskaloosa, Iowa office for the refinancing of the Series 2001 Bonds. Under terms of the note, principal and interest payments of \$105,441 are due monthly with an interest rate of 2.6%. The note matures with a balloon payment due January 15, 2014. The Hospital has pledged all of its future revenues (net of certain expenses) to repay the note.

Note Payable, US Bank

In December, 2011, the Hospital issued \$21,250,000 of Hospital Revenue Notes. According to the Note documents, the Hospital will draw the proceeds of the notes as construction progresses, up to an amount not exceeding \$21,250,000. The Hospital had drawn \$16,630,802 of the proceeds by June 30, 2013. The note is in the name of Mahaska Health Partnership through US Bank, St. Louis, Missouri office to finance a portion of the construction and renovation of the existing facility. Under terms of the note, principal and interest payments are deferred until December 15, 2013 with interest being accumulated at 1.58%. At that time the intentions of management are to refinance the note. The Hospital has pledged all of its future revenues (net of certain expenses) to repay the note.

The annual debt service on the bonds and notes is expected to require less than 43% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$1,422,000 and \$3,407,000, respectively.

MAHASKA HEALTH PARTNERSHIP
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE I - LONG-TERM DEBT - Continued

Scheduled principal and interest repayments on long-term debt are as follows:

Year Ending June 30,	Long-Term Debt		
	Principal	Interest	Total
2014	\$ 2,223,892	\$ 623,317	\$ 2,847,209
2015	529,881	746,200	1,276,081
2016	554,915	721,167	1,276,082
2017	581,131	694,951	1,276,082
2018	608,585	667,497	1,276,082
2019 - 2023	3,502,342	2,878,063	6,380,405
2024 - 2028	4,411,602	1,968,806	6,380,408
2029 - 2033	5,556,917	823,492	6,380,409
2034	629,521	8,519	638,040
	<u>\$ 18,598,786</u>	<u>\$ 9,132,012</u>	<u>\$ 27,730,798</u>

Under the terms of the debt resolutions, the Hospital is required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements. The debt resolutions also place limits on the incurrence of additional borrowings and require that the Hospital satisfy certain measures of financial performance as long as the debt is outstanding.

NOTE J - DEFEASANCE OF DEBT

In December, 2011, the Hospital issued \$3,750,000 of 2011 Series Hospital Revenue notes, with an interest rate of 2.6%. Proceeds from these notes along with Hospital revenues were used to current refund \$4,595,000 of outstanding 2001 Series bonds, with varying interest rates ranging from 5.0% to 5.5%. The Hospital, in effect, decreased its aggregate debt service payments by approximately \$328,933 over the next five years and incurred an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$224,318. As of June 30, 2013 the outstanding balance of the Series 2001 Hospital Revenue notes was \$ - 0 -.

NOTE K - DEFERRED INFLOWS OF RESOURCES

The deferred inflows of resources include electronic health records (EHR) incentive payments and grant funding from the county public health department. The EHR revenue will be recognized over five years, as the related equipment is depreciated. The grant funds will be recognized as revenue when earned. Amounts deferred and sources are listed below:

	2013	2012
Electronic health records incentive	\$ 356,000	\$ --
Grant funding	<u>42,072</u>	<u>--</u>
	<u>\$ 398,072</u>	<u>\$ --</u>

MAHASKA HEALTH PARTNERSHIP
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE L - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.78% (5.95% beginning July 1, 2013) of their annual salary and the Hospital is required to contribute 8.67% (8.93% beginning July 1, 2013) of annual covered payroll. Contribution rates are slightly higher when employees are performing emergency response services. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011, were approximately \$1,734,000, \$1,505,000, and \$1,143,000, respectively, equal to the required contributions for each year.

NOTE M - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's personnel department is responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2013 was \$395,492 (\$357,127 at June 30, 2012). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

MAHASKA HEALTH PARTNERSHIP
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE N - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The self-insured plan is a part of the plan offered to all Hospital employees, and the retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are approximately 357 active employees and no retirees currently covered by the plan.

Funding Policy: The Hospital does not set aside funds to pay for any OPEB liability. Any Hospital costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

Net OPEB Obligation: Management had an actuarial valuation performed dated October 18, 2013. The actuarial report noted the unfunded actuarial accrued liability to be \$78,103. The annual required contribution for the year end June 30, 2013 is \$16,003. Management of the Hospital considers this OPEB obligation to be immaterial and has not recorded this liability in its statements of net position.

NOTE O - COMMITMENTS AND CONTINGENCIES

Notes Receivable

The notes receivable represent funds advanced under agreements with physicians who have begun to practice in the community. The agreements include commitments by the physicians to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the terms of the commitments.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. The Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Construction in Progress

Construction in progress at June 30, 2013 of \$19,852,383 consists of costs primarily related to construction and renovation of the existing facility. The construction and renovation of the existing facility is expected to cost approximately \$26 million. The Hospital anticipates financing the construction and renovation project with internally generated funds and issuance of debt of approximately \$23 million.

Self-Funded Health Insurance

The Hospital has established a self-insured employee health insurance program. Under the self-insured plan, the Hospital pays claims up to maximum limits and carries stop loss insurance for claims in excess of the limits. At June 30, 2013, the Hospital has accumulated funds in excess of actual claims paid of \$714,240 (\$714,240 at June 30, 2012). These funds, shown under internally designated assets are to be used to pay claims as they are filed in the future. The estimated amount of unpaid claims at June 30, 2013 is \$200,000 (\$200,000 at June 30, 2012), which is reported under current liabilities.

MAHASKA HEALTH PARTNERSHIP
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE O - COMMITMENTS AND CONTINGENCIES - Continued

Subsequent Event

Subsequent to year end, the Hospital entered into agreements for the purchase of equipment and the purchase of a physicians' practice. Total commitment is approximately \$935,000, which will be financed with internally generated funds.

The Hospital has evaluated all subsequent events through October 21, 2013, the date the financial statements were available to be issued.

NOTE P - ACCOUNTING CHANGE

During 2013, the Hospital elected to early implement GASB Statement No. 65 "Items Previously Reported as Assets and Liabilities." For the year ended June 30, 2012, the Hospital incurred \$591,395 of debt issue costs and had unamortized debt issue cost from prior periods of \$191,842. The Hospital recorded the costs as an asset to be amortized over the life of the loan. Under provisions of GASB Statement No. 65, debt issue costs are to be expensed in the year incurred. The change will be made by reducing net position as of the beginning of the 2011-12 year and expenses for the 2011-12 year. The following is a summary of the effect of the change on the individual items in the financial statements for the year ended June 30:

	Previous	2012 Change	Current
Debt Issue Costs	\$ 732,314	\$(732,314)	\$ --
Revenues	\$ 36,523,618	\$ --	\$ 36,523,618
Expenses	37,660,567	(50,923)	37,609,644
Operating Income (Loss)	(1,136,949)	50,923	(1,086,026)
Non-Operating Revenue	2,524,858	(591,395)	1,933,463
Capital Grants and Contributions	203,922	--	203,922
Excess of Revenues Over Expenses and Increase in Net Position	1,591,831	(540,472)	1,051,359
Net Position Beginning of Year	33,394,970	(191,842)	33,203,128
Net Position End of Year	\$ 34,986,801	\$(732,314)	\$ 34,254,487

* * *

REQUIRED SUPPLEMENTARY INFORMATION

MAHASKA HEALTH PARTNERSHIP
Budgetary Comparison Schedule
Year ended June 30, 2013

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following the required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustment results from accounting for Foundation activity, principal, interest, capital purchases, depreciation, and net assets differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 1,913,972	\$ --	\$ 1,913,972
Other revenues	<u>40,420,440</u> 42,334,412	<u>66,267</u> 66,267	<u>40,486,707</u> 42,400,679
Expenses	<u>41,015,268</u>	<u>1,200</u>	<u>41,016,468</u>
Net	1,319,144	65,067	1,384,211
Balance beginning of year	<u>32,396,541</u>	<u>1,857,946</u>	<u>34,254,487</u>
Balance end of year	<u>\$ 33,715,685</u>	<u>\$ 1,923,013</u>	<u>\$ 35,638,698</u>

	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 1,913,972	\$ --	\$ 1,913,972	\$ 1,797,983
Other revenues	<u>40,486,707</u> 42,400,679	<u>13,050,542</u> 13,050,542	<u>53,537,249</u> 55,451,221	<u>59,409,286</u> 61,207,269
Expenses	<u>41,016,468</u>	<u>12,969,901</u>	<u>53,986,369</u>	<u>61,364,797</u>
Net	1,384,211	80,641	1,464,852	(157,528)
Balance beginning of year	<u>34,254,487</u>	<u>(3,117,903)</u>	<u>31,136,584</u>	<u>31,136,584</u>
Balance end of year	<u>\$ 35,638,698</u>	<u>\$ (3,037,262)</u>	<u>\$ 32,601,436</u>	<u>\$ 30,979,056</u>

See Independent Auditor's Report.

SUPPLEMENTARY INFORMATION

MAHASKA HEALTH PARTNERSHIP
Consolidating Statements of Net Position
June 30, 2013

ASSETS

	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Current Assets:			
Cash	\$ 2,303,763	\$ --	\$ 2,303,763
Patient receivables, net	8,129,982	--	8,129,982
Other receivables	19,070	--	19,070
Inventory	1,122,398	--	1,122,398
Prepaid expense	164,560	--	164,560
Estimated third-party payor settlements	94,000	--	94,000
Succeeding year property tax receivable	1,800,000	--	1,800,000
Internally designated assets	<u>1,200,000</u>	<u>--</u>	<u>1,200,000</u>
Total current assets	14,833,773	--	14,833,773
Designated and Restricted Assets:			
Internally designated assets	5,029,025	--	5,029,025
Restricted assets	1,006,000	917,013	1,923,013
Current portion	<u>(1,200,000)</u>	<u>--</u>	<u>(1,200,000)</u>
	4,835,025	917,013	5,752,038
Depreciable Capital Assets, Net	20,115,235	--	20,115,235
Non-depreciable Capital Assets	20,411,119	--	20,411,119
Notes Receivable	243,380	--	243,380
Other	<u>26,844</u>	<u>--</u>	<u>26,844</u>
Total assets	<u>\$ 60,465,376</u>	<u>\$ 917,013</u>	<u>\$ 61,382,389</u>

See Independent Auditor's Report.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Current Liabilities:			
Current maturities of long-term debt	\$ 2,223,892	\$ --	\$ 2,223,892
Accounts payable	1,968,355	--	1,968,355
Accrued employee compensation	2,218,388	--	2,218,388
Accrued payroll taxes and withholding	560,090	--	560,090
Accrued health insurance claims	200,000	--	200,000
Deferred revenue for succeeding year property tax receivable	<u>1,800,000</u>	<u>--</u>	<u>1,800,000</u>
Total current liabilities	8,970,725	--	8,970,725
Long-Term Debt:			
Revenue bonds and notes payable, less unamortized refunding costs, and current maturities	<u>16,374,894</u>	<u>--</u>	<u>16,374,894</u>
Total liabilities	25,345,619	--	25,345,619
Deferred Inflows of Resources:			
Deferred revenue	398,072	--	398,072
Net Position:			
Invested in capital assets, net of related debt	20,529,000	--	20,529,000
Restricted	1,006,000	917,013	1,923,013
Unrestricted	<u>13,186,685</u>	<u>--</u>	<u>13,186,685</u>
Total net position	<u>34,721,685</u>	<u>917,013</u>	<u>35,638,698</u>
Total liabilities and net position	<u>\$ 60,465,376</u>	<u>\$ 917,013</u>	<u>\$ 61,382,389</u>

MAHASKA HEALTH PARTNERSHIP
Consolidating Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2013

	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Revenue:				
Net patient service revenue	\$ 39,414,278	\$ --	\$ --	\$ 39,414,278
Other revenue	<u>598,992</u>	<u>--</u>	<u>--</u>	<u>598,992</u>
Total revenue	40,013,270	--	--	40,013,270
Expenses:				
Nursing service	9,558,134	--	--	9,558,134
Other professional service	18,899,931	--	--	18,899,931
General service	3,039,120	1,200	(1,200)	3,039,120
Fiscal and administrative service	7,545,176	--	--	7,545,176
Provision for depreciation	<u>1,974,107</u>	<u>--</u>	<u>--</u>	<u>1,974,107</u>
Total expenses	<u>41,016,468</u>	<u>1,200</u>	<u>(1,200)</u>	<u>41,016,468</u>
Operating Loss	(1,003,198)	(1,200)	1,200	(1,003,198)
Non-Operating Revenue (Expenses):				
County taxes	1,913,972	--	--	1,913,972
County subsidy - New Directions	13,187	--	--	13,187
Investment income	19,024	10,186	--	29,210
Noncapital grants and contributions	306,403	--	(1,200)	305,203
Rental income	128,146	--	--	128,146
Interest expense	(2,807)	--	--	(2,807)
Gain on disposal of assets	<u>(55,583)</u>	<u>--</u>	<u>--</u>	<u>(55,583)</u>
Non-operating revenue, net	<u>2,322,342</u>	<u>10,186</u>	<u>(1,200)</u>	<u>2,331,328</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,319,144	8,986	--	1,328,130
Capital Grants and Contributions	<u>--</u>	<u>56,081</u>	<u>--</u>	<u>56,081</u>
Excess of Revenues Over Expenses and Increase in Net Position	1,319,144	65,067	--	1,384,211
Net Position Beginning of Year, as restated	<u>33,402,541</u>	<u>851,946</u>	<u>--</u>	<u>34,254,487</u>
Net Position End of Year, as restated	<u>\$ 34,721,685</u>	<u>\$ 917,013</u>	<u>\$ --</u>	<u>\$ 35,638,698</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2013</u>		<u>2012</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
Hospital				
0 - 30	\$ 6,154,724	51.3%	\$ 5,364,278	48.7%
31 - 60	1,770,653	14.8	2,449,742	22.3
61 - 90	1,339,184	11.1	776,329	7.1
91 - 180	1,523,069	12.7	1,142,951	10.4
Over 181	<u>1,218,352</u>	<u>10.1</u>	<u>1,268,178</u>	<u>11.5</u>
	12,005,982	<u>100.0%</u>	11,001,478	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	619,000		779,000	
Allowance for contractual adjustments	<u>3,257,000</u>		<u>2,948,000</u>	
	<u>\$ 8,129,982</u>		<u>\$ 7,274,478</u>	

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Balance, beginning	\$ 779,000	\$ 741,216
Provision for bad debts	1,819,874	2,277,377
Recoveries of accounts previously written off	<u>465,733</u>	<u>391,892</u>
	3,064,607	3,410,485
Accounts written off	<u>2,445,607</u>	<u>2,631,485</u>
Balance, ending	<u>\$ 619,000</u>	<u>\$ 779,000</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Inventory/Prepaid Expense
June 30,

	<u>2013</u>	<u>2012</u>
<u>Inventory</u>		
Store room	\$ 129,394	\$ 126,868
Dietary	11,340	13,738
Pharmacy	184,071	170,583
Laboratory	100,890	82,610
Operating room	687,868	744,803
Radiology	<u>8,835</u>	<u>6,618</u>
	<u>\$ 1,122,398</u>	<u>\$ 1,145,220</u>
 <u>Prepaid Expense</u>		
Insurance	\$ 49,804	\$ 46,872
Dues and contracts	<u>114,756</u>	<u>89,747</u>
	<u>\$ 164,560</u>	<u>\$ 136,619</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Patient Service Revenue
Year ended June 30,

	2013	
	<u>Inpatient</u>	<u>Outpatient</u>
Daily Patient Services:		
Medical and surgical	\$ 3,173,155	\$ 1,221,029
Coronary care	172,656	1,830
Nursery	295,659	--
Obstetrics	438,010	50,810
Swing bed	--	--
Vision Quest	2,097,267	--
	<u>6,176,747</u>	<u>1,273,669</u>
Other Nursing Services:		
Operating and recovery rooms	1,054,464	6,561,755
Delivery and labor rooms	388,444	113,069
Central services and supply	2,293,936	1,521,116
Wound/ostomy care	917	108,392
Emergency services	133,507	4,022,344
Cardiac rehabilitation and stress test	--	267,351
	<u>3,871,268</u>	<u>12,594,027</u>
Other Professional Services:		
Emergency room physicians	43,761	2,579,760
Laboratory	934,040	5,019,988
Electrocardiology	--	56,358
Electroencephalography	2,133	21,330
Radiology	128,171	1,993,751
Ultrasound	48,358	650,908
Nuclear scanning	3,764	93,392
MRI scanning	113,751	1,763,140
CT scanning	353,058	3,155,416
Outsourced services	137,236	720,964
Pharmacy	1,915,221	2,793,562
Oncology	166	263,116
Anesthesiology	677,262	1,844,071
Respiratory therapy	1,017,076	1,030,339
Physical therapy	193,135	1,213,177
Occupational therapy	107,845	214,418
Speech therapy	363	51,747
Massage therapy	--	52,343
Ambulance	201,805	2,028,097
Community health	--	1,339,415
Hospice	365,223	790,053
Occupational health	--	126,700
New Directions	100,091	1,377,193
Hospitalist	307,029	115,514
Physician clinics	1,193,354	8,206,123
	<u>7,842,842</u>	<u>37,500,875</u>
	<u>\$ 17,890,857</u>	<u>\$ 51,368,571</u>

See Independent Auditor's Report.

2013		2012
Swing Bed	Total	Total
\$ --	\$ 4,394,184	\$ 4,158,135
--	174,486	161,545
--	295,659	256,179
--	488,820	404,106
753,485	753,485	901,834
--	2,097,267	2,164,778
753,485	8,203,901	8,046,577
13,401	7,629,620	7,475,622
--	501,513	425,575
5,660	3,820,712	3,508,385
9,784	119,093	107,815
--	4,155,851	3,490,633
--	267,351	351,719
28,845	16,494,140	15,359,749
--	2,623,521	2,328,774
75,868	6,029,896	4,373,905
--	56,358	51,937
--	23,463	27,604
13,663	2,135,585	2,014,041
5,845	705,111	709,119
1,047	98,203	131,999
6,615	1,883,506	1,661,406
--	3,508,474	3,097,491
13,928	872,128	788,980
352,622	5,061,405	4,877,554
9,543	272,825	328,980
4,142	2,525,475	2,412,126
295,336	2,342,751	2,327,936
127,551	1,533,863	1,404,120
78,462	400,725	269,002
--	52,110	24,475
--	52,343	54,684
16,042	2,245,944	1,860,395
--	1,339,415	1,412,673
--	1,155,276	947,073
--	126,700	122,485
--	1,477,284	1,536,700
72,285	494,828	--
1,420	9,400,897	7,481,053
1,074,369	46,418,086	40,244,512
\$ 1,856,699	\$ 71,116,127	\$ 63,650,838

MAHASKA HEALTH PARTNERSHIP
Revenue and Related Adjustments
Year ended June 30,

	<u>2013</u>	<u>2012</u>
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 71,116,127	\$ 63,650,838
Contractual adjustments	(29,293,005)	(24,793,366)
Charity care	(588,970)	(429,998)
Provision for bad debts	<u>(1,819,874)</u>	<u>(2,277,377)</u>
	<u>\$ 39,414,278</u>	<u>\$ 36,150,097</u>
 <u>Other Revenue</u>		
Cafeteria	\$ 254,185	\$ 231,787
Medical record transcripts	3,661	4,574
Outpatient clinics	74,762	83,752
Dietary services	69,528	42,702
Miscellaneous	<u>196,856</u>	<u>10,706</u>
	<u>\$ 598,992</u>	<u>\$ 373,521</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Nursing Service Expenses
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Administrative:		
Salaries and wages	\$ 299,696	\$ 285,641
Employee benefits	47,099	45,142
Supplies and other expense	<u>9,987</u>	<u>12,449</u>
	356,782	343,232
Medical and Surgical:		
Salaries and wages	2,189,798	2,329,176
Employee benefits	348,828	358,451
Supplies and other expense	<u>205,959</u>	<u>211,651</u>
	2,744,585	2,899,278
Obstetrics:		
Salaries and wages	639,808	573,476
Employee benefits	99,660	89,932
Supplies and other expense	<u>109,033</u>	<u>71,697</u>
	848,501	735,105
Vision Quest:		
Salaries and wages	838,190	808,784
Employee benefits	131,127	120,920
Purchased services	9,169	39,195
Supplies and other expense	<u>150,689</u>	<u>62,331</u>
	1,129,175	1,031,230
Operating and Recovery Rooms:		
Salaries and wages	766,983	789,774
Employee benefits	122,364	121,942
Supplies and other expense	<u>601,817</u>	<u>582,698</u>
	1,491,164	1,494,414
Central Services and Supply:		
Supplies and other expense	1,440,947	1,412,097

(continued next page)

MAHASKA HEALTH PARTNERSHIP
Nursing Service Expenses - Continued
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Wound/Ostomy Care:		
Salaries and wages	\$ 32,784	\$ 28,759
Employee benefits	5,256	4,332
Supplies and other expense	<u>12,619</u>	<u>13,958</u>
	50,659	47,049
Emergency Services:		
Salaries and wages	1,084,345	1,058,992
Employee benefits	175,881	168,693
Supplies and other expense	<u>138,466</u>	<u>89,586</u>
	1,398,692	1,317,271
Cardiac Rehabilitation:		
Salaries and wages	66,600	78,292
Employee benefits	10,445	11,750
Supplies and other expense	<u>20,584</u>	<u>26,489</u>
	97,629	116,531
	<u>\$ 9,558,134</u>	<u>\$ 9,396,207</u>

SUMMARY

Salaries and wages	\$ 5,918,204	\$ 5,952,894
Employee benefits	940,660	921,162
Supplies and other expense	<u>2,699,270</u>	<u>2,522,151</u>
	<u>\$ 9,558,134</u>	<u>\$ 9,396,207</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Other Professional Service Expenses
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Emergency Room Physicians:		
Salaries and wages	\$ 1,057,361	\$ 998,695
Employee benefits	130,409	118,609
Professional fees	60,425	18,765
Supplies and other expense	<u>14,424</u>	<u>21,059</u>
	1,262,619	1,157,128
Laboratory:		
Salaries and wages	433,890	407,786
Employee benefits	64,908	60,545
Purchased services	471,905	272,155
Supplies and other expense	<u>493,492</u>	<u>429,401</u>
	1,464,195	1,169,887
Electroencephalography and Electrocardiology:		
Salaries and wages	833	1,003
Employee benefits	126	132
Purchased services	<u>3,264</u>	<u>3,648</u>
	4,223	4,783
Oncology:		
Salaries and wages	154,758	151,251
Employee benefits	23,909	23,192
Supplies and other expense	<u>12,365</u>	<u>17,686</u>
	191,032	192,129
Radiology and Ultrasound:		
Salaries and wages	606,209	551,482
Employee benefits	94,219	84,987
Supplies and other expense	<u>584,573</u>	<u>600,935</u>
	1,285,001	1,237,404
Outsourced Services:		
Purchased services	238,436	222,364

(continued next page)

MAHASKA HEALTH PARTNERSHIP
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Pharmacy:		
Salaries and wages	\$ 284,751	\$ 281,352
Employee benefits	43,772	43,715
Drugs and other expense	<u>963,225</u>	<u>949,808</u>
	1,291,748	1,274,875
Anesthesiology:		
Salaries and wages	545,478	554,568
Employee benefits	66,148	60,829
Supplies and other expense	<u>78,420</u>	<u>124,602</u>
	690,046	739,999
Respiratory Therapy:		
Salaries and wages	407,870	414,427
Employee benefits	63,789	62,536
Professional fees	5,563	8,787
Supplies and other expense	<u>72,908</u>	<u>76,516</u>
	550,130	562,266
Physical Therapy:		
Salaries and wages	--	21
Employee benefits	--	2
Professional fees	705,248	649,293
Supplies and other expense	<u>31,351</u>	<u>23,173</u>
	736,599	672,489
Speech Therapy:		
Salaries and wages	26,274	19,182
Employee benefits	4,197	3,028
Professional fees	--	1,650
Supplies and other expense	<u>2,770</u>	<u>1,343</u>
	33,241	25,203
Occupational Therapy:		
Professional fees	184,332	123,741
Supplies and other expense	<u>6,360</u>	<u>4,034</u>
	190,692	127,775
Ambulance:		
Salaries and wages	98,010	93,959
Employee benefits	17,092	14,746
Purchased services	991	3,485
Supplies and other expense	<u>73,137</u>	<u>49,351</u>
	189,230	161,541

(continued next page)

MAHASKA HEALTH PARTNERSHIP
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Community Health:		
Salaries and wages	\$ 828,728	\$ 770,678
Employee benefits	130,527	118,294
Purchased services	156,535	159,255
Supplies and other expense	<u>100,109</u>	<u>118,899</u>
	1,215,899	1,167,126
Hospice:		
Salaries and wages	820,304	854,622
Employee benefits	128,309	130,179
Supplies and other expense	<u>197,069</u>	<u>200,549</u>
	1,145,682	1,185,350
Medical Records:		
Salaries and wages	576,675	498,068
Employee benefits	88,628	76,028
Supplies and other expense	<u>55,756</u>	<u>98,099</u>
	721,059	672,195
Physician Clinics:		
Salaries and wages	4,601,776	3,794,190
Employee benefits	536,513	398,997
Supplies and other expense	<u>735,846</u>	<u>407,096</u>
	5,874,135	4,600,283
Outpatient Clinics:		
Salaries and wages	471	3,391
Employee benefits	75	312
Purchased services	285	146
Supplies and other expense	<u>--</u>	<u>790</u>
	831	4,639
Dietician Services:		
Salaries and wages	61,763	64,798
Employee benefits	9,951	9,555
Supplies and other expense	<u>2,436</u>	<u>4,109</u>
	74,150	78,462
New Directions:		
Salaries and wages	841,544	1,038,417
Employee benefits	133,033	155,652
Purchased services	15,121	45,118
Supplies and other expense	<u>119,641</u>	<u>44,620</u>
	1,109,339	1,283,807

(continued next page)

MAHASKA HEALTH PARTNERSHIP
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Hospitalist:		
Salaries and wages	\$ 353,856	\$ --
Employee benefits	50,278	--
Supplies and other expense	<u>16,795</u>	<u>--</u>
	420,929	--
Occupational Health:		
Salaries and wages	64,562	58,525
Employee benefits	8,715	9,795
Purchased services	8,121	1,126
Supplies and other expense	<u>25,678</u>	<u>22,826</u>
	107,076	92,272
Employee Health:		
Salaries and wages	24,618	23,756
Employee benefits	3,774	3,294
Supplies and other expense	<u>9,261</u>	<u>9,148</u>
	37,653	36,198
Durable Medical Equipment:		
Salaries and wages	831	--
Employee benefits	126	--
Supplies and other expense	<u>114</u>	<u>--</u>
	1,071	--
Massage Therapy:		
Salaries and wages	53,605	48,472
Employee benefits	8,416	7,030
Purchased services	--	10
Supplies and other expense	<u>2,894</u>	<u>3,470</u>
	64,915	58,982
	<u>\$ 18,899,931</u>	<u>\$ 16,727,157</u>

SUMMARY

Salaries and wages	\$ 11,844,167	\$ 10,628,643
Employee benefits	1,606,914	1,381,457
Professional fees	955,568	802,236
Supplies and other expense	<u>4,493,282</u>	<u>3,914,821</u>
	<u>\$ 18,899,931</u>	<u>\$ 16,727,157</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
General Service Expenses
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Dietary:		
Salaries and wages	\$ 348,451	\$ 322,238
Employee benefits	55,444	49,310
Food	318,275	321,925
Supplies and other expense	<u>292,914</u>	<u>335,992</u>
	1,015,084	1,029,465
Operation of Plant:		
Salaries and wages	305,312	267,222
Employee benefits	48,407	40,253
Utilities	403,387	417,585
Supplies and other expense	<u>712,330</u>	<u>643,766</u>
	1,469,436	1,368,826
Environmental Services:		
Salaries and wages	301,522	297,595
Employee benefits	47,042	45,742
Supplies and other expense	<u>45,685</u>	<u>49,781</u>
	394,249	393,118
Laundry and Linen:		
Salaries and wages	110,700	130,595
Employee benefits	18,140	20,505
Supplies and other expense	<u>31,511</u>	<u>23,282</u>
	<u>160,351</u>	<u>174,382</u>
	<u>\$ 3,039,120</u>	<u>\$ 2,965,791</u>

SUMMARY

Salaries and wages	\$ 1,065,985	\$ 1,017,650
Employee benefits	169,033	155,810
Supplies and other expense	<u>1,804,102</u>	<u>1,792,331</u>
	<u>\$ 3,039,120</u>	<u>\$ 2,965,791</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Fiscal and Administrative Service Expenses
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Administrative:		
Salaries and wages	\$ 1,791,959	\$ 1,438,027
Employee benefits	267,886	213,950
Professional fees	145,807	132,514
Supplies and other expense	637,970	459,361
Purchased services	250,587	153,406
Travel and education	18,380	14,416
Telephone	9,499	6,000
Equipment rent	981	--
Dues, subscriptions and licenses	71,083	58,944
Collection fees	142,100	108,027
	<u>3,336,252</u>	<u>2,584,645</u>
Information Systems:		
Salaries and wages	346,538	335,807
Employee benefits	53,601	49,949
Purchased services	191,806	212,606
Supplies and other expense	281,313	233,054
	<u>873,258</u>	<u>831,416</u>
Purchasing:		
Salaries and wages	163,717	158,199
Employee benefits	25,467	24,128
Supplies and other expense	64,200	60,936
	<u>253,384</u>	<u>243,263</u>
Public Relations:		
Salaries and wages	148,925	117,426
Employee benefits	24,051	17,748
Supplies and other expense	177,421	161,722
	<u>350,397</u>	<u>296,896</u>
Human Resources:		
Salaries and wages	170,514	162,905
Employee benefits	26,904	25,136
Purchased services	16,634	15,313
Supplies and other expense	44,040	26,463
	<u>258,092</u>	<u>229,817</u>

(continued next page)

MAHASKA HEALTH PARTNERSHIP
Fiscal and Administrative Service Expenses - Continued
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Quality Management:		
Salaries and wages	\$ 28,796	\$ 87,905
Employee benefits	4,889	12,870
Supplies and other expense	<u>324</u>	<u>2,000</u>
	34,009	102,775
Employee Welfare:		
Unemployment tax	8,711	45,914
Group health and life insurance	1,838,698	1,757,029
Workers' compensation insurance	<u>258,671</u>	<u>231,918</u>
	2,106,080	2,034,861
Insurance:		
Insurance and bonding expense	<u>333,704</u>	<u>324,165</u>
	<u>\$ 7,545,176</u>	<u>\$ 6,647,838</u>

SUMMARY

Salaries and wages	\$ 2,650,449	\$ 2,300,269
Employee benefits	2,508,878	2,378,642
Professional fees	145,807	132,514
Supplies and other expense	<u>2,240,042</u>	<u>1,836,413</u>
	<u>\$ 7,545,176</u>	<u>\$ 6,647,838</u>

SUMMARY OF EXPENSES

Salaries and wages	\$ 21,478,805	\$ 19,899,456
Employee benefits	5,225,485	4,837,071
Professional fees	1,101,375	934,750
Supplies and other expense	<u>11,236,696</u>	<u>10,065,716</u>
	<u>\$ 39,042,361</u>	<u>\$ 35,736,993</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Comparative Statistics
Year ended June 30,

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Acute Care:					
Admissions	1,092	1,094	1,208	1,126	1,365
Discharges	1,091	1,100	1,206	1,123	1,368
Patient days	3,593	3,616	3,954	3,738	4,020
Average length of stay	3.29	3.29	3.28	3.33	2.94
Average occupied beds	9.84	9.88	10.8	10.2	11.0
Vision Quest:					
Admissions	114	134	149	146	141
Discharges	114	134	150	147	137
Patient days	1,665	1,778	1,996	1,891	1,917
Average length of stay	14.61	13.27	13.31	12.86	13.99
Average occupied beds	4.7	4.9	5.5	5.2	5.3
Swing Bed:					
Admissions	248	257	314	262	269
Discharges	248	258	313	264	265
SNF days	1,297	1,591	1,616	1,456	1,627
ICF days	--	--	--	--	1
Combined Average Occupied Beds	18.0	19.1	20.7	19.4	20.7
Nursery Days	399	357	425	421	509
Hospice House Days	978	1,069	876	--	--
Home Health Visits	16,418	14,798	16,126	15,300	16,271
Outpatient Occasions of Service	137,115	113,403	102,134	97,016	99,016

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Comparative Statements of Net Position
June 30,

	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash	\$ 2,303,763	\$ 1,483,346
Receivables, net	8,149,052	7,289,679
Inventory	1,122,398	1,145,220
Prepaid expense	164,560	136,619
Estimated third-party payor settlements	94,000	--
Succeeding year property tax receivable	1,800,000	1,800,000
Internally designated assets	<u>1,200,000</u>	<u>1,200,000</u>
Total current assets	14,833,773	13,054,864
Other Assets:		
Designated and restricted assets, net	5,752,038	5,649,133
Capital assets, net	40,526,354	29,599,675
Other assets	<u>270,224</u>	<u>129,561</u>
Total other assets	46,548,616	35,378,369
	<u>\$ 61,382,389</u>	<u>\$ 48,433,233</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 2,223,892	\$ 1,194,508
Accounts payable	1,968,355	2,995,677
Accrued expenses	2,978,478	2,367,954
Estimated third-party payor settlements	--	270,000
Deferred revenue for succeeding year property tax receivable	<u>1,800,000</u>	<u>1,800,000</u>
Total current liabilities	8,970,725	8,628,139
Long-Term Debt, Net	16,374,894	5,550,607
Deferred Inflows of Resources:		
Deferred revenue	398,072	--
Net Position	<u>35,638,698</u>	<u>34,254,487</u>
	<u>\$ 61,382,389</u>	<u>\$ 48,433,233</u>

See Independent Auditor's Report.

<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 3,281,325	\$ 2,068,407	\$ 3,641,120
6,556,588	4,922,287	5,427,264
1,174,046	1,220,454	1,250,581
158,581	222,703	203,179
--	--	--
1,790,000	1,790,000	1,780,000
<u>1,080,000</u>	<u>760,151</u>	<u>1,236,403</u>
14,040,540	10,984,002	13,538,547
6,027,058	7,084,162	7,378,330
24,049,490	23,993,911	19,672,331
93,187	23,729	31,890
<u>30,169,735</u>	<u>31,101,802</u>	<u>27,082,551</u>
<u>\$ 44,210,275</u>	<u>\$ 42,085,804</u>	<u>\$ 40,621,098</u>
\$ 876,317	\$ 834,360	\$ 826,450
689,501	653,718	749,630
2,341,136	1,931,587	1,749,138
718,000	371,000	364,000
<u>1,790,000</u>	<u>1,790,000</u>	<u>1,780,000</u>
6,414,954	5,580,665	5,469,218
4,592,193	5,468,510	6,302,866
--	--	--
<u>33,203,128</u>	<u>31,036,629</u>	<u>28,849,014</u>
<u>\$ 44,210,275</u>	<u>\$ 42,085,804</u>	<u>\$ 40,621,098</u>

MAHASKA HEALTH PARTNERSHIP
Comparative Statements of Revenues and Expenses
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Patient Service Revenue	\$ 71,116,127	\$ 63,650,838
Adjustments to Patient Service Revenue	<u>(31,701,849)</u>	<u>(27,500,741)</u>
Net Patient Service Revenue	39,414,278	36,150,097
Other Revenue	<u>598,992</u>	<u>373,521</u>
Total Revenue	40,013,270	36,523,618
Expenses	<u>41,016,468</u>	<u>37,609,644</u>
Operating Loss	(1,003,198)	(1,086,026)
Non-Operating Revenue, net	2,331,328	1,933,463
Capital Grants and Contributions	<u>56,081</u>	<u>203,922</u>
Excess of Revenues Over Expenses	<u>\$ 1,384,211</u>	<u>\$ 1,051,359</u>

See Independent Auditor's Report.

<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 59,617,463	\$ 53,457,659	\$ 49,062,941
<u>(25,855,261)</u>	<u>(22,423,571)</u>	<u>(19,030,875)</u>
33,762,202	31,034,088	30,032,066
<u>390,732</u>	<u>287,157</u>	<u>256,025</u>
34,152,934	31,321,245	30,288,091
<u>34,963,123</u>	<u>32,370,762</u>	<u>31,266,887</u>
(810,189)	(1,049,517)	(978,796)
2,474,527	2,530,254	2,223,433
<u>502,161</u>	<u>706,878</u>	<u>1,033,255</u>
<u>\$ 2,166,499</u>	<u>\$ 2,187,615</u>	<u>\$ 2,277,892</u>

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Mahaska Health Partnership
Oskaloosa, Iowa

We have audited the financial statements of Mahaska Health Partnership as of and for the year ended June 30, 2013, and have issued our report thereon dated October 21, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mahaska Health Partnership's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Mahaska Health Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees
Mahaska Health Partnership

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 13-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mahaska Health Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Response to Findings

Mahaska Health Partnership's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

Purpose of this Report

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Mahaska Health Partnership and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Gmelwold, Ben, Kuhn + G.P.C.

Atlantic, Iowa
October 21, 2013

MAHASKA HEALTH PARTNERSHIP
Schedule of Findings
Year ended June 30, 2013

PART I - INTERNAL CONTROL DEFICIENCIES

13-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. This deficiency is common among most small rural Hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

13-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2013 did not exceed amounts budgeted.

13-II-B Questionable Expenditures: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Bradbury Hall, William Penn, Jeremy Nunes, Oskaloosa Chamber	Employee recognition banquet	\$ 4,888

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

MAHASKA HEALTH PARTNERSHIP
Schedule of Findings - Continued
Year ended June 30, 2013

PART II - REQUIRED STATUTORY REPORTING - Continued

13-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

13-II-D Business Transactions: During our audit, we noted no business transactions with Hospital employees or officials.

13-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

13-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

* * *